



NEWS RELEASE

Debra Wong Yang
United States Attorney
Central District of California

For Immediate Distribution

November 16, 2005

Thom Mrozek, Public Affairs Officer
(213) 894-6947
thom.mrozek@usdoj.gov
www.usdoj.gov/usao/cac

OPERATOR OF EMPLOYERS MUTUAL CONVICTED OF FRAUD FOR OPERATING BOGUS HEALTH INSURANCE PROVIDER

A Southern California man was found guilty of federal fraud charges today for bilking the customers of Employers Mutual LLC, a company that purported to provide health care coverage to more than 20,000 people across the United States, but left more than \$20 million in unpaid claims for medical services when it was shut down.

James Graf, 44, who is presently incarcerated but formerly resided in Canyon Lake, was convicted of one count of conspiracy, five counts of mail fraud, 10 counts of misappropriation in connection with a health care benefit program, six counts of money laundering and one count of obstruction of justice.

Graf is the second person convicted in connection with the Employers Mutual scheme. Earlier in the year, Kari Hanson, a 44-year-old Canyon Lake resident, pleaded guilty to misappropriation in connection with a health care benefit program and subscription to a false tax return. In August 2005, a third defendant in the case – William Kokott, of Burbank, an owner of Employers Mutual, who at times called himself chairman of the company – died with charges pending.

Between the fall of 2000 and December 2001, the three defendants collected more than \$14 million in premiums purportedly to provide health care coverage under Employers Mutual's plans. Graf misrepresented to insurance agents and the public that Employers Mutual's plans were insured through one or more

legitimate insurance companies, including Sun Life of Canada, United Wisconsin Life Insurance Company and Golden Rule Insurance Company. Graf and his co-conspirators also committed fraud by, among other things, taking more than \$3.3 million in premiums, and not paying most of the claims.

While state laws, such as those in California, require an insurance company to obtain a certificate of authority before offering insurance coverage, Graf purported to operate Employers Mutual pursuant to ERISA, the Employee Retirement Income Security Act of 1974. ERISA allows employers and certain organizations such as unions to offer health care coverage plans. Such plans may operate without the prior approval of the United States Department of Labor (the agency that regulates ERISA plans). Employers Mutual's claim of ERISA compliance shielded the scheme from the scrutiny of the California Department of Insurance, which previously had sanctioned Graf for running an unauthorized health insurance business.

Between August and October 2001, insurance commissioners for the states of Florida, Colorado, Texas, Oklahoma and Nevada ordered Employers Mutual to cease transacting insurance business in their states.

Graf is scheduled to be sentenced by United States District Judge Margaret M. Morrow on March 6. As a result of today's convictions, Graf faces a maximum possible sentence of 200 years in federal prison.

Hanson is scheduled to be sentenced on January 23, and she faces a maximum possible sentence of 23 years in prison.

On March 3, 2004, the United States General Accounting Office issued a report that examined the actions of Employers Mutual and similar entities. The report, "Private Health Insurance: Unauthorized or Bogus Entities Have Exploited Employers and Individuals Seeking Affordable Coverage" (GAO 04-512T), was presented to the Senate Committee on Finance for Congress' consideration.

Employers Mutual, LLC is unrelated to Employers Mutual Insurance Company of Des Moines, Iowa.

This case was investigated by the Employee Benefits Security Administration

of the United States Department of Labor, IRS-Criminal Investigation Division, the United States Postal Inspection Service and the California Department of Insurance-Criminal Investigation Division, which received assistance from the California Department of Justice.

CONTACT: Assistant United States Attorney Jill Feeney
(213) 894-2429

Assistant United States Attorney Mark Krause
(213) 894-3493

Release No. 05-156